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SUBJECT: PANAMA'S TELECOM/TECH SECTOR: AN OVERVIEW

1. Summary: Panama's telecommunications and technology sector is growing, and now represents 6% of GDP. The regulatory authority "Ente" has maintained a fairly good record for enforcement over the sector, though the former monopoly, Cable & Wireless Panama (CWP) has been slow in negotiating interconnection agreements. Fixed-line services are dominated by CWP, though new entrants, including those offering internet phone calls, are beginning to compete in the market since deregulation in 2003. Panama has no/no universal access fund. Wireless telephony is a duopoly by CWP and BellSouth since the exit of trunking operator TriCom in March, but BellSouth may soon be sold to Telefonica. Internet service is widely available; e-government and e-commerce are still underused. In sum, the GoP has proved to be forward thinking in telecom policy and had been somewhat successful in regulatory enforcement. End Summary.

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Regulatory Overview  
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2. Legislation passed in 1996 provided for the privatization of telecommunications services and the creation of an independent regulatory authority for public utility companies-- the Regulating Entity for Public Services (ERSP or "Ente"). Ente's role has increased in recent years, as telecommunication services now represent approximately 6% of Panama's GDP and 80% of voice and internet traffic between North and South America pass through Panama's fiber optic hubs. It controls the frequency spectrum, grants wireless concessions, and regulates tariffs under monopoly or non-competitive situations (otherwise the market will determine prices.) It also has an enforcement mechanism. For example, Ente has fined former monopoly Cable & Wireless Panama (CWP) over \$1 million since 2001, mostly for delays in implementing interconnection agreements with competitors. In fact, Ente has had to intervene in over half of the interconnection negotiations between CWP and its competitors.

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Fixed Line Services: Partially Deregulated  
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3. In May 1997, the Government of Panama sold a 49% stake in the national telephone company, INTEL, to Cable & Wireless of the United Kingdom for \$651 million. The government maintained a 49% of the shares with INTEL workers controlling the remaining 2%. Under this arrangement, C&W gained operational control over the company and was granted an exclusive concession to offer basic telecommunications services until 2003. The company was re-named Cable & Wireless Panama (CWP). The company currently has 300,000 subscribers; and claims to have invested \$700 million in new infrastructure in Panama in past six years.

4. On January 2, 2003, Panama liberalized local, long distance, and international fixed-line telecommunications services effectively ending C&W's monopoly. Consumers are now allowed both contractual and immediate consumer options, allowing a choice on a per-call basis. The contractual carrier provides billing for all services. Metering is in second increments, and numbers are portable. Nineteen local and international companies immediately applied to Ente to provide service; and by April of this year, more than 100 operators had applied for basic service concessions. Although only five license holders have successfully negotiated interconnection agreements with C&W and only two are offering competitive service, the cost of an international call has decreased between 200% and 400% since the market opening in January 2003. In March 2004, the GoP removed a \$1 flat tax on all international phone calls and replaced it with a 12% per-minute tax, further reducing the cost of the call to the end consumer. In spite of this, there were only 365,000 landline subscribers in Panama at the

end of 2003, a drop of 100,000 since 1999, due mostly to increased mobile phone use.

15. Panama has no universal access fund, though the Ministry of Economy and Finance and Ente have been drafting a law on the issue since 2003. Under the terms of its concession, CWP maintains 12,000 public phones throughout the country. The company estimates that 9,000 of those are net money losers, and calculates this "subsidy" to be over \$40 million annually. CWP expects to cease this subsidy when the terms of universal access are negotiated, likely to happen by the end of 2004.

16. Ente issued a resolution in October 2002 ordering Internet service providers in Panama to stop offering Voice over Internet Protocol (VoIP) phone calls, on the basis that the companies were not paying the dollar tax on international phone calls. In November 2002, Panama's Supreme Court ordered an indefinite suspension of the resolution. As of April, this suspension remained in effect, and will likely never be lifted, as VoIP providers are now included in the 12% tax that replaced the dollar tax in March.

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Wireless: A Duopoly until 2007  
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17. The mobile market in Panama is currently served by a duopoly consisting of BellSouth and CWP. In 1997 the two operators were granted concessions to provide mobile services in the A and B Bands, respectively. The government will begin further liberalization of this sector in 2007 when it will auction nationwide PCS licenses. As in much of Latin America, the wireless market has shown significant growth in Panama. In 1999, there were 223,000 cellphone subscribers; in 2003 there were 810,000. Mobile penetration exceeded 28% at the end of 2003. Approximately 87% of the sector comes from pre-paid services with post-paid representing 13%. At the end of 2003, market share was split 51% BellSouth to 49% CWP. Both operators have recently upgraded their networks\* BellSouth to CDMA and CWP to GSM/GPRS.

18. BellSouth Panama is 56% owned by the Panamanian investment company Multiholdings Corporation (MHC) and 44% by BellSouth. The joint venture paid \$72 million for the concession in 1997. BellSouth and MHC are currently in negotiations to sell all of the company or BellSouth's holdings to Telefonica of Spain for an undisclosed sum, though industry sources indicate that the sale price may be as high as \$700 million.

19. In April 2001, Tricom, a Dominican Republic-based company, but 18% owned by Motorola Corporation and with 38% of its stock listed on the NYSE, entered the Panama market with the intent to offer cellular-like products based on IDEN digital trunking technology. TriCom invested a total of \$52 million in infrastructure, employed 115 employees, and had 11,000 users until March. The company estimated its 2003 revenue at \$14 million. BellSouth protested this service on the grounds that Tricom did not possess a mobile license and filed numerous legal suits against the company. In March, TriCom closed its Panamanian operations due to the high legal costs and liquidity problems related to currency devaluation in the Dominican Republic, and sold its assets for \$12.5 million to a local investor who plans to transfer the equipment to Nicaragua. Ironically, BellSouth now provides the same IDEN-based technology on its network.

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Internet/Broadband Wireless, E-commerce/E-government  
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10. Internet service is fairly widespread in Panama. As of mid-2003, there were more than 250 internet cafes in Panama, charging rates as low as \$1 per hour. The GoP National Secretariat of Science, Innovation, and Technology (SENACYT)

SIPDIS offers subsidized internet nodes throughout the country for students and teachers, especially in underserved areas, charging 25 cents per hour using VSAT satellite technology. For-fee services for cable modem, DSL, A/DSL, and dialup are also readily available. Since January, hotspotpanama.com has offered seven broadband wireless (wi-fi) hot spots in Panama City.

11. In spite of easy access, e-commerce and e-government are

still in their nascent stages. Business to Consumer (B2C) e-commerce is almost nonexistent, with the exception of the country's three major supermarkets (even in this case, the market focuses more on expats who wish to send food instead of remittances to family members in Panama). Almost all government agencies have an online web presence (accessible via [www.pa](http://www.pa)), though the quality of content varies greatly. The Panama Canal Authority is the only GoP body to offer procurement opportunities completely online, however the GoP now publishes most public tenders online ([www.e-compras.gob.pa](http://www.e-compras.gob.pa)) and is moving to make the process entirely electronic.

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Comment: Moving forward slowly but surely  
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12. Overall, Panama's telecom and technology sector is experiencing positive and continued growth. The GoP has shown initiative to develop internet access generally and government information specifically. The Ente has had some difficulty in reigning in the former monopoly CWP--especially given the conflict of interest posed by the GoP's 49% stake in the company, but also has proved that it has enforcement capability by issuing high fines to CWP for noncompliance.  
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